

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
AVISTA UTILITIES, A UNIT OF AVISTA )  
CORPORATION, FOR AUTHORITY TO )  
INCREASE ITS RATES FOR NATURAL GAS )  
SERVICE. )**

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**CASE NO. AVU-G-03-1**

**ORDER NO. 29342**

On August 5, 2003, Avista Utilities, a unit of Avista Corporation (Avista; Company), filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Commission for authority to place into effect new rate schedules that will result in an overall increase in revenues of approximately \$1.2 million or 2.4%.<sup>1</sup> Avista requested an effective date of September 15, 2003 for its proposed rate schedules. The Company supplies natural gas service to approximately 59,500 customers in northern Idaho. On September 8 and 9, 2003, the Commission convened public workshops in Lewiston and Couer d'Alene, Idaho. The Commission also received written comments from members of the public, the Commission Staff and the Company. After reviewing the record in this case, the Commission grants Avista's Application.

**BACKGROUND**

**A. Procedural History**

After receipt of Avista's Application the Commission issued a combined Notice of Application, Notice of Public Workshops, Notice of Modified Procedure and Notice of Comment Deadlines on August 20, 2003. Order No. 29325. In order to provide adequate time to hold public workshops and to allow the parties and the public to comment on the Company's Application, the Commission suspended the effective date of Avista's proposed rate schedules for 60 days or until it issued an Order approving, rejecting or modifying its Application, whichever date was earlier. Order No. 29325 at 3. Accordingly, pursuant to the Notices the Commission: 1) convened two public workshops in Avista's Idaho service territory on September 8 and 9, 2003; 2) set a deadline for any written comments authored by the Commission Staff or members of the public be filed in this case on or before September 15,

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<sup>1</sup> Avista's PGA is a mechanism used on an annual basis to set the price of gas it anticipates purchasing in the coming year and to account for over- and under-collections of gas purchases.

2003; and 3) set a deadline for the Company to file any reply comments on or before September 19, 2003. *Id.* at 3-4.

### **B. The Application**

The underlying fixed tariff rates for Avista's natural gas customers are the rates established in the Company's last rate case. They include the cost of gas<sup>2</sup>, overhead, operations, transportation, other fixed costs and the allowed rate of return (Case No. WWP-G-88-5, Order No. 22749). Avista's fixed tariff rates for its firm service customers are described in Schedules 101 – General Service, 111 – Large General Service, and 121 – High Annual Load Factor Large General Service. However, these fixed rates are subject to four potential annual adjustments that affect the actual rate customers pay. These adjustments are described in Schedules 150 – Purchase Gas Cost Adjustment, 155 – Gas Rate Adjustment, 158 – Tax Adjustment, and 191 – Energy Efficiency Rider. Avista requests Commission authorization to adjust only its Schedules 150 and 155 that in turn will result in an increase in revenues to cover gas related costs the Company anticipates incurring or has incurred.

Schedule 150, or the Purchase Gas Cost Adjustment (also known as Permanent Gas Cost Changes) is a forward-looking cost adjustment that reflects anticipated changes in the variable cost to purchase and transport gas. The Company requests authorization to increase rates as a result of higher anticipated natural gas costs and changes to transportation costs through its Schedule 150 and associated customer tariffs. Application at 3. Avista's estimate of its costs for October 2003 to September 2004 is based on forward natural gas prices obtained on July 24, 2003 and fixed price hedges that it has executed to date. Accordingly, the Company requests that the Commission authorize it to set its Schedule 150 rate for Schedule 101, 111, 112, 121 and 122 customers, at \$0.27186/therm, an increase of \$0.09919/therm over last year's rate of \$0.17267/therm.<sup>3</sup> This increase is a combination of a \$0.10417/therm increase in the projected price for gas and a \$0.00498/therm decrease in the pipeline transportation costs. The Company's proposed changes in Schedule 150 would result in a weighted average cost of gas (WACOG) included in rates of \$0.44989/therm for these customers as compared to the \$0.34572/therm set

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<sup>2</sup> The cost of gas is the average cost of gas and transportation that was determined at the time of the rate case.

<sup>3</sup> The Company does not have any Schedule 122 customers and only one Schedule 112 customer in Idaho.

in last year's PGA case.<sup>4</sup> Order No. 29142, Case No. AVU-G-02-2. This represents a 30% increase in average gas costs over last year.

Avista also proposes a significant decrease in its Schedule 155 – or the Gas Rate Adjustment (also known as the Temporary Adjustment) used by the Company as a true up for over- or under-collected gas costs since the last PGA case. Avista proposes a decrease from \$0.11018 to \$0.03093 per therm for its firm sales customers on its Rate Schedules 101, 111 and 121. This reduced rate is projected to recover the \$2.3 million that has accrued in the Company's deferred accounts for the deferral period of July 2002 through June 2003. The Company also proposes a reduction in the rate used to recover the timing differences from \$0.11598/therm to \$0.035/therm for its interruptible customers (off peak) on Schedule 131.<sup>5</sup>

The Company states that after netting the proposed increase of Schedule 150 and proposed decrease of Schedule 155, customers on Schedules 101, 111 and 121 will see a rate increase of \$0.01994/therm.<sup>6</sup> Residential and small business customers served under Schedule 101 using an average of 70 therms per month can expect to see an average increase of \$1.39 per month or about 2.5%. Larger commercial customers served under Schedules 111 and 121 can expect to see an average increase of 2.8% and 3%, respectively, with the higher increase percentages due to the lower base rates.

The Company also proposed that large transportation and interruptible customers be given an option of receiving/paying a portion of the deferred gas costs either through a lump sum credit/charge or through an amortization rate.

Avista states that Notice of its proposed tariffs was given simultaneously with the filing of its Application by: 1) posting a notice at each of its district offices in Idaho, Application, Exhibit B; 2) a press release distributed to various informational agencies, Application, Exhibit

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<sup>4</sup> The Company also requests that the Commission authorize it to change its Schedule 150 rate for Schedule 131 and 132 customers to \$ 0.2437/therm, up from \$ 0.13953/therm. This increase also raises the WACOG for these customers. Currently, Avista has two Schedule 132 customers and no Schedule 131 customers in Idaho.

<sup>5</sup> Because there are no Schedule 131 customers in Idaho this reduction in Schedule 155 does not impact any customer. However, it does provide the rate should a customer in Idaho take service from this Schedule.

<sup>6</sup> The Company states that customers on Schedule 112 and 122 will see a rate increase of \$0.9919/therm. Customers on Schedule 131 will see an increase of \$0.02319/therm and customers on Schedule 132 will see an increase of \$0.10417/therm.

E; and 3) a separate notice to each Idaho gas customer included in their billings, mailed between August 1, 2003 and ending September 2, 2003, Application, Exhibit B-1.

Based on the foregoing, Avista requested that the Commission issue an Order finding its proposed rates to be just reasonable and nondiscriminatory.

### **THE PUBLIC WORKSHOPS**

On September 8, 2003, the first of two public workshops was held in Lewiston, Idaho to discuss the proposed rate increase. Other than representatives from the IPUC and Avista, there were three individuals in attendance: a customer, a newspaper reporter, and a private energy consultant from Boise. On September 9, 2003, another workshop was held in Coeur d'Alene, Idaho. Attendees included the IPUC Staff, Avista representatives, and one reporter from a local newspaper. No customers attended.

### **WRITTEN COMMENTS**

#### **1. Public Comments**

The Commission received written comments from three Avista natural gas customers. Two of the comments opposed Avista's Application based on arguments that natural gas service is a necessity and not a luxury; the rate increase merely goes to the stockholders and for salary increases for employees; and that natural gas and storage indicators clearly show that prices for the commodity will follow more traditional cost trends in 2003. One commenter supported the Company's Application and disagreed with Staff's recommendation stating that several small increases on a year-to-year basis when the utility's cost of gas goes up are easier on most budgets than waiting several years and increasing rates significantly at one time. Additionally, this commenter stated that higher prices will promote conservation.

#### **2. The Commission Staff**

The Commission Staff noted in its comments that the increasing market price trends for natural gas since early spring of 2003 described in Avista's Application were caused in large part by: 1) depleted gas storage due to unseasonably cold weather in late winter for the eastern half of the U.S.; 2) increased reliance on natural gas-fired electric generation throughout the U.S.; 3) increased pressure on fuel switching because of high petroleum prices; and 4) increased gas pipeline capacity from fields in the western Canadian and U.S. Rockies to the Midwest and California. Against this backdrop Staff reviewed Avista's Application, performed an audit of the

Company's gas purchases from July 2002 through June 2003 and reviewed additional market information supplied by the Company and third parties.

First, Staff recommended that the Commission authorize Avista to recover the \$2.3 million owed to the Company as of July 2003 for the deferral period of July 2002 through June 2003 under its proposed Schedule 155.

Second, Staff recommended that the Commission set Avista's WACOG lower than the Company requested. Avista requested that the Commission authorize it to raise its WACOG to \$0.44989/therm, up from \$0.34572/therm as set in last year's PGA case. Order No. 29142, Case No. AVU-G-02-2. Staff recommended the Commission set the Company's WACOG at \$0.42995, using a lower Schedule 150 rate of \$0.25192, in order to provide price stability at a time when the natural gas market is demonstrating a high degree of volatility. This would cause Avista's overall rate to remain the same as last year.<sup>7</sup> Staff also believed that setting the WACOG at this level and maintaining current overall rates would not significantly increase the deferral balance subject to possible recovery next year. Staff stated that the Company would have the opportunity to recover any deferral balance resulting from this lower WACOG through its PGA mechanism by demonstrating that additional gas costs were prudently incurred.

Staff noted the Company is working directly with its large gas customers on the proposed deferral collection. In the Company's 2001 PGA filing, Avista provided each large customer with an accounting of its portion of the deferral and a lump sum payment or deferral payment plan option. The Company has continued this practice in its 2003 PGA filing. In the past, providing the large customers with an individual payment option has reduced the deferral and avoided a shift of costs to the general body of ratepayers. Neither the Company nor Staff is aware of any additional large customers planning to shift to transportation rates but continuing to provide large customers with a clear understanding of their deferral balances allows these customers a better understanding of their obligation. Staff stated it would continue to monitor the Company's treatment of its large customer deferrals.

Staff reviewed the Company's notices and determined they complied with the requirements of IDAPA 31.21.02.102. The notices were mailed with customer bills beginning

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<sup>7</sup> Under Staff's recommendation other rates may have minor changes and it would result in an overall decrease of \$77,000 in revenues to the Company because of large customer payments.

August 1, 2003 and ending on September 2, 2003. The press release dated August 1, 2003, was also reviewed and determined to be compliant with the Commission's Rules of Procedure.

Finally, Staff stated that since Avista's last PGA adjustment in November 2002, five natural gas-related complaints were investigated. Staff represented that these complaints did not reveal any patterns or trends that raised further concerns.

### **3. Avista Reply Comments**

Avista stated it is sensitive to concerns related to additional increases in prices; however, it believes that Commission approval of its Application as filed is advisable given the most recent projections for its WACOG based on the market and its hedging practices. On September 2, 2003 the Company provided Staff with an update of its anticipated WACOG for the coming year of \$0.48/therm. The Company stated that Staff recognized this projection in its Comments. Staff Comments at 4. However, Avista still requested that the Commission authorize the Company to set its WACOG at \$0.44989/therm. Thus, Avista argued that Staff's proposal of a WACOG of \$0.43/therm is too low. Avista stated that implementing this modest increase now may help mitigate a potentially larger increase in rates next year if the Company's actual WACOG turns out to be \$0.450/therm or higher as projected. In conclusion, Avista believes its proposal will provide better rate stability for its customers than Staff's recommendation.

## **COMMISSION DISCUSSION AND FINDINGS**

### **A. Jurisdiction**

Avista is a gas utility that is engaged in the sale of and distribution of natural gas within the State of Idaho. *See Idaho Code* §§ 61-117 and 61-129. Thus, the Commission has jurisdiction over the Company and the subject matter of its Application in this case, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

### **B. Deferral Balances and WACOG**

According to Idaho law, utilities cannot increase their rates for service without a finding by the Commission that the increase is justified. *Idaho Code* § 61-622. Based on the record, we find that gas prices have increased and the gas rates previously authorized in Order No. 29142, Case No. AVU-G-02-2, are not adequate to compensate Avista for the prices it pays

its gas suppliers. Consequently, we find the previously authorized rates to no longer be “just and reasonable” as required by *Idaho Code* § 61-502.

Avista requests that the Commission authorize it to decrease its Schedule 155, or the Gas Rate Adjustment used by the Company as a true up for over- or under-collected gas costs since the last PGA case. The Company proposed a decrease from \$0.11018 to \$0.03093 per therm for its firm sales customers on its Rate Schedules 101, 111 and 121.<sup>8</sup> Avista seeks to use this reduced rate to recover \$2.3 million that has accrued in the Company’s deferred accounts for the deferral period of July 2002 through June 2003. Based on Staff’s recommendation and the record, the Commission finds that there are no inconsistencies or irregularities that require adjustments to this amount. Thus, the Commission finds this amount to have been prudently incurred. The Commission authorizes the Company to employ this reduced rate to recover the \$2.3 million that has accrued in the Company’s deferred accounts for the deferral period of July 2002 through June 2003.

In setting the Company’s WACOG the Commission considered Avista’s interests, the burdens that will be incurred by consumers due to an increase in rates and Staff’s position that the Company’s WACOG should be set lower than requested by the Company. After carefully considering these matters the Commission finds that the Company’s request to set its WACOG at \$0.44989 per therm is reasonable. While the Staff recommendation to lower the WACOG would provide rate stability in the short term, the Commission is concerned it will cause deferral amounts that will exacerbate the need for a rate increase next year. Avista’s current hedging practices have secured a significant portion of the gas needed to meet projected customer usage for the coming November through March heating season. The volatility in the natural gas market continues. The Commission finds therefore, that the more prudent course is to approve the Company’s request and authorize a Schedule 150 rate of \$0.27186 per therm, which results in a WACOG of \$0.44989 per therm for customers on Schedules 101, 111, 112, 121 and 122. The Commission also finds it reasonable to authorize the Company to revise its Schedule 150 rate for Schedule 131 and 132 customers to \$0.2437 per therm.

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<sup>8</sup> The Company also proposes to lower the Schedule 155 tariff amount from \$.11598 to \$.0350 for Schedule 131 interruptible customers.

The Commission orders the Company to continue to file its quarterly Benchmark Report for the current gas year. These reports allow the Commission and Staff to monitor the cost of gas purchased for customers throughout the year.

Combining the adjustments to Avista's Schedules 150 and 155 the Commission authorizes the Company to increase its revenues by \$1.2 million or 2.4%. Residential and small business customers served under Schedule 101 using an average of 70 therms per month can expect to see an average increase of \$1.39 per month or about 2.5%. Larger commercial customers served under Schedules 111 and 121 can expect to see an average increase of 2.8% and 3%, respectively, with the higher increase percentages due to the fact that their rates are lower than the residential base rates. The following tables represent the Commission authorized changes in rates per customer class.

Schedule	Customer Class	Number of Customers	Present Rate Per Therm	Proposed Rate Per Therm	Estimated Monthly Increase	Estimated Percentage Increase
101	General Service	58,908	0.7572	0.7772	\$1.39	2.63% <sup>9</sup>
111	Large General Service	577	0.7192	0.7392	\$34.77	2.77%
112	Large General Service	1	0.5634	0.6625	\$1,045.46	17.61%
121	High Load Factor Service	8	0.6598	0.6797	\$425.28	3.02%
132	Interruptible Service	2	0.4560	0.5602	\$2,718.11	22.84%

We recognize that these higher overall rates will have an impact on consumers at a time when many can ill afford any additional expenses. Based on the risk of gas purchase costs that will have to be recovered in the future with interest and the desire to match this year's gas costs with this year's gas customers the Commission finds it reasonable and necessary to allow this rate increase.

Avista shall allocate the change in rates to each of its customer classes in accordance with its Purchased Gas Cost Adjustment tariff and associated schedules on October 3, 2003.

#### O R D E R

IT IS HEREBY ORDERED that Avista Utilities' Application is granted. The Company shall file tariffs to increase its Schedule 150 rate to \$0.27186 per therm to result in a WACOG of \$0.44989 per therm for its Schedule 101, 111, 112, 121 and 122. In addition, the

<sup>9</sup> This percentage increase is higher than the 2.5% change shown in the Company's Application because it did not include the fixed monthly service charge of \$3.28.

Company shall also file tariffs to increase its Schedule 150 rate for its Schedule 131 and 132 customers to \$0.2435 per therm. The new tariffs shall be effective on October 3, 2003.

IT IS FURTHER ORDERED that the \$2.3 million that has accrued in the Company's deferral accounts shall be recovered through the Company's new Schedule 155, effective October 3, 2003.

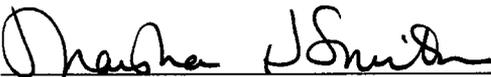
IT IS FURTHER ORDERED that Avista Utilities notify its customers of the rate changes approved in this Order. The Company shall also advise its customers of how to obtain assistance from state and local natural gas customer assistance programs.

IT IS FURTHER ORDERED that Avista Utilities continue to file its quarterly Benchmark Report with the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. AVU-G-03-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. AVU-G-03-1. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 3<sup>rd</sup>  
day of October 2003.

  
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PAUL KJELLANDER, PRESIDENT

  
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MARSHA H. SMITH, COMMISSIONER

  
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DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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